

**COMPACT OF FREE ASSOCIATION**

**Interior Committee Reported Resolution**

Extends "inular possessions" tariff treatment to Free Associated States (FAS) thru General Headnote 3(e).

Section 242 Allows FAS to tax U.S. persons on income earned in or products consumed in FAS.

Section 253 (a) Exempts FAS citizens domiciled in FAS from U.S. tax on U.S. source passive income.

(b) Exempts FAS citizens domiciled in FAS from U.S. estate, gift, and generation-skipping taxes.

Section 254 (a) FAS may tax income that residents receive from sources outside FAS.

(b) Resident of FAS is exempt from U.S. tax on income earned by FAS Resident for HHS during a taxable year.)

Section 255 Provisions of Code that applied to possessions as of January 1, 1980, would be applied to FAS for 2 years after the Compact becomes effective. Then, the U.S. would give FAS the same "substantially equivalent" to the 1980 possessions rules.

Effective Date:  Income earned and transactions occurring on or after October 1, 1985

Extends tariff treatment accorded to CBI beneficiary countries to FAS.

No change.

(a) No change.

(b) No change.

(a) No change.

(b) Override this provision.

Business investment incentives of Code that applied to possessions as of January 1, 1985, would apply to FAS. If Congress changes them, they would still apply to FAS for 2 years. Then, the U.S. would still negotiate to give to FAS benefits "substantially equivalent" to the 1980 possessions rules.

No lesser incentives shall be applicable to U.S. Virgin Islands, Guam, American Samoa, Northern Mariana Islands, and Puerto Rico for 15 years.

Income earned and transactions occurring on or after October 1, 1985

Possible Substitute

Treat as foreign country eligible for benefits under generalized system of preferences.

No change.

(a) Override this provision (i.e., U.S. can tax any U.S. source passive income.)

(b) Override this provision for U.S. persons (i.e., U.S. can impose transfer taxes on worldwide assets of U.S. citizens and domiciliaries.)

(a) No change.

(b) Override this provision. Consistent with possessions treatment, there is no distinction for foreign earned income (sec. 891).

to FAS.

Income earned and transactions occurring on or after October 1, 1985

